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REPORT
OF
THE GOVERNOR'S COMMITTEE
ON
UNEMPLOYMENT COMPENSATION

JULY 1959

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July 29, 1959

The Honorable David L. Lawrence
Governor of Pennsylvania
Harrisburg, Pennsylvania

My dear Governor:

The Committee on Unemployment Compensation, appointed by you on May 6, 1959, has held meetings through the last twelve weeks. It has considered with care the charges which you gave the committee, both orally and in writing, as guideposts for its deliberations.

At the outset the committee recognized the importance of stating the purpose and objectives of a properly conceived and executed unemployment compensation law. Such a statement, used as a yardstick at each step of its deliberations, seemed most likely to ensure a set of recommendations which would be both acceptable and economically defensible.

The following statement, taken from the paper "Unemployment Insurance: Purpose and Principles," published by the Bureau of Employment Security, U. S. Department of Labor, December 1950, seemed useful as such a yardstick:

"Unemployment insurance is a program of short-term insurance for the payment of benefits to workers as a matter of right during unemployment which is beyond their control. The program is designed to provide protection only to workers who are ordinarily employed, who are currently unemployed due to lack of suitable work, and who are ready, willing and able to accept such work. The primary objective of benefit payments is to replace enough of the current wage loss of unemployed workers who meet the program's requirement so that most such workers need not turn to other programs for aid under normal and recession conditions."

Cognizant of the fact that the Unemployment Compensation Program affects the well-being of hundreds of thousands of Pennsylvania's unemployed, the majority of employers in the state, and the over-all economy of the Commonwealth, the committee's review of the Unemployment Compensation Program has not been hasty or sketchy; it has conducted detailed and exhaustive reviews in the five following broad program areas: (1) Claimant Population; (2) Benefit Changes; (3) Desired Fund Levels; (4) Needed Income Changes; (5) Taxing Provisions. In addition to committee discussions, great quantities of statistical data and several surveys (requested by the committee and promptly supplied by the Bureau of Employment Security) were considered.

We believe the record of our meetings and discussions will be of real value to you in determining necessary action both at this session of the Legislature and at later sessions.

It has not been possible for the committee to reach a unified and comprehensive recommendation on all the areas under discussion. The character of the many and varied interlocking problems and the differences in philosophy of the members were evidenced by the divergent opinions expressed not only by individual members but by the three groups represented on the committee. We feel, however, that these views, divergent as they may be, are important to the Administration and the Legislature in the establishment of a sound public policy and program of unemployment compensation in our Commonwealth.

The committee considered the question of restoring the Unemployment Compensation Fund to a level providing adequate protection in the event of a recurring recession with its attendant mass unemployment. On this matter of first importance prevailing opinion indicated the following specific recommendations:

Within the next three years, by the end of 1962, every effort should be made to rebuild the Unemployment Compensation Fund to \$300 million.

In committee discussion it was generally considered that, for the restoration of the fund, a flat tax for the years 1960, 1961, and 1962 will be required over and above the tax necessary to finance benefit outlays. The amount of tax considered, now estimated at 0.7 percent, would necessarily be affected by changes in benefit outlays.

The total tax levied (including the 0.7 percent) should, however, not be so large as to place Pennsylvania employers and state and community authorities at a competitive tax disadvantage in their efforts to attract new industries to the Commonwealth, as well as to expand those already here.

If experience rating provisions are continued in the Pennsylvania Unemployment Compensation Law, the committee considers that a tax on covered wages would have to be imposed to permit the proper financing of "common costs" on a current basis. Common costs are: (1) Deficit balances in employer reserve accounts; (2) Benefit disbursements not charged to any employer's account; (3) Offset by inactive employer surplus balances and miscellaneous fund income.

The proposed effort to rebuild the Fund to the \$300 million level is one which the committee thinks should be made without delay.

The committee considered the problem of defining an adequate fund level. Although there were differences as to what constitutes adequacy, there was general agreement that an adequate fund could best be defined in other than dollar amounts.

One viewpoint considered was the adoption of one or a combination of adequacy measures supplied by the Federal Bureau of Employment Security. Such measures would indicate complete adequacy when the fund reached an eventual

level in the neighborhood of \$600 million. It was assumed, however, that such a level would require an extended period of time, possibly a decade or more. Some members deemed such a large reserve unnecessary. These members believe that a small reserve, coupled with a sensitive tax structure to produce needed income quickly, would provide adequacy without the necessity of further accumulations beyond the initial rebuilding level of \$300 million.

In all its discussions, the committee was cognizant of the fact that basic to fund rebuilding or tax requirements was the question of the total benefit outlays. Latest available information indicates that, under the present provisions of the law, benefit costs in 1959 will approximate \$250 million. This figure was developed prior to the present strike in steel. On the basis of previous experience, however, \$250 million has been used by the committee as reasonably indicative of average annual benefit outlays for the near future.

The committee considered at great length, but without reaching agreement, the possibility of reducing the level of benefit outlays by a tightening up of the present provisions governing eligibility for all claimants, especially those groups about whose present eligibility some question has been raised. The committee also considered at some length increases in benefit outlays which some members deemed desirable, but due consideration was given to the fact that such changes must be financed either by a concurrent reduction in outlays in other benefit areas or by increased tax contributions.

Several comprehensive package proposals were explored on which agreement was not reached. In these, reductions considered varied from \$19.5 million to as high as \$62.5 million (on an assumed annual benefit outlay of \$250 million) and changes increasing the benefit costs by \$19 million. Some of the committee felt that this latter figure should be offset by compensating benefit reductions. Other proposed changes increasing benefit costs ranged as high as \$31.5 million per year. The committee was unable to arrive at any general agreement in these areas.

Basic to the committee's discussion of short- and long-term adequacy fund levels, total benefit outlays and required taxes, were major questions of the composition of the claimant population and the benefit rate and duration of benefits. It was in these broad areas that major differences of opinion arose among committee members and committee groups. For your consideration, we are presenting a brief summary of the topics to which major attention was devoted, with a reflection of the various viewpoints expressed.

CLAIMANT POPULATION

Students

Benefit outlays involved in this area of discussion amount to an estimated \$1.5 million, based on a total benefit outlay of \$250 million per year.

There was agreement on the part of all committee members that when unemployed persons attend vocational training classes in order to improve their skills or obtain training for employment, they should not be excluded arbitrarily from the Unemployment Compensation Program provided that they meet other requirements of the law. Committee members also agreed, without exception,

that wages earned during a normal vacation period by a full-time student and wages earned during a regularly prescribed work period by a full-time student under a cooperative educational program should be excluded as a basis for computing unemployment compensation entitlement.

In this area the committee contemplated and agreed on changes which would involve a reduction of approximately \$500,000.

Maritime Workers

The committee generally agreed and recommends a revision in the law to reduce the three-week waiting period now required of maritime workers to a one-week period similar to that required for all other claimants.

The committee agreed on changes in this area which would increase benefit outlays by \$50,000 per year.

Claimants Separated Because of Pregnancy

The Bureau of Employment Security estimates that benefit outlays involved in this area of discussion totaled \$5 million out of an estimated total annual outlay of \$250 million. This total is comprised of \$2 million for claimants who left jobs for compelling and necessitous reasons due to pregnancy and \$3 million for claimants laid off or discharged because of pregnancy. Annual costs in this area range from \$4 million to \$5.6 million depending on economic conditions and size of total benefit outlay.

A variety of opinions were expressed by committee members with regard to the eligibility of pregnant claimants. Some committee members believed the present provisions of the law should be left unchanged; others proposed a return to the provisions as they stood in the law at an earlier date. This would change the present ineligibility period, from $7\frac{1}{2}$ months of pregnancy until thirty days after confinement, to the prior provision calling for ineligibility after six months of pregnancy until thirty days after confinement. An alternate proposal considered would retain a six-month disqualification for workers separated for reasons of pregnancy but would permit eligibility up to eight months for those pregnant claimants whose unemployment was caused by reasons other than pregnancy. A proposal was also made that such claimants be deemed ineligible for benefits if they quit their employment at any earlier period of pregnancy because they were unable to perform their regular work assignments. There was general agreement that in all cases such claimants must meet all other tests of the law.

In this area the committee contemplated but did not agree on changes ranging from zero to a decrease of \$3 million per year.

Claimants Voluntarily Leaving Work for Compelling and Necessitous Reasons

The Bureau of Employment Security estimated that benefit outlays involved in this area of discussion totaled \$2.5 million based on an estimated total annual outlay of \$250 million. Although the annual benefit outlays in this area range from \$1.5 to \$3.5 million, depending on economic conditions and size of total benefit outlay, the average of \$2.5 million is used as typical.

Some committee members felt that all voluntary leaving of work for reasons other than those connected with the claimant's employment should be disqualifying. A large number of the committee members believed that present provisions of the law should be amended to provide for the disqualification of a person who voluntarily leaves work to accompany a spouse to another area, provided that such disqualification should not be enforced in the event the claimant was the sole or major support of his/her family within the period of six months before separation from work or at the time of the filing of a claim. Other members felt that no changes in the law should be made.

In this area the committee contemplated but did not agree on changes ranging from zero to a decrease of \$2.5 million per year.

Claimants Separated for Retirement Reasons (Pensioners)

The Bureau of Employment Security estimated that benefit outlays involved in this area of discussion totaled \$8 million based on an estimated total annual outlay of \$250 million. Although benefit outlays in this area range from \$6 to \$10 million, depending on economic conditions and size of total benefit outlay, the average of \$8 million is used as typical.

It was agreed by the committee members that a person who retires solely on his own initiative is now and should continue to be ineligible for benefits, unless his eligibility is re-established by subsequent employment. Some members felt that in determining payments to pensioners the principle of offsetting a portion of the pension payment should be considered.

The opinion was held by some committee members that all pensioners should be declared ineligible for benefits, because their retirement indicated separation from the labor force. Other members believed that the law should be amended to limit the weekly benefit amount to which such a claimant would be eligible by use of an offset so constructed that, if such a claimant received a monthly pension payment equal to 4-1/3 times the maximum weekly unemployment benefit, he would be ineligible for any unemployment benefit payment. It was also proposed that any claimant receiving a private pension to which his base year employer contributed, which exceeds 4-1/3 times the maximum weekly benefit amount provided by law, shall be ineligible for some or all weekly benefits by offsetting from his weekly benefits the amount of his private pension in excess of 4-1/3 times the weekly benefit amount.

Monthly pension payments from the OASI Program or the Railroad Retirement Program, and payments from private plans to which the employe was the sole contributor, should not be considered as pension payments for offset purposes.

Some committee members believed that there should be uniform treatment in determining eligibility for unemployment compensation for all workers separated for retirement purposes, whether or not such retirement is covered by a labor-management agreement. Therefore, benefits should not be denied to any otherwise eligible claimant by reason of a labor agreement calling for termination of employment or retirement because of age. Other committee members

believed clarification was needed to establish that a claimant would not be ineligible if he were separated from employment under the terms of a labor-management agreement or company policy.

A prevailing opinion of the committee was that claimants separated for retirement purposes should be treated alike irrespective of coverage or noncoverage under a labor-management agreement.

In this area the committee contemplated but did not agree on changes ranging from an increase of \$2 million to a decrease of \$8 million per year.

Second Benefit Year Claimants

The Bureau of Employment Security estimated that benefit outlays involved in this area of discussion totaled \$18 million based on an estimated total annual outlay of \$250 million.

Committee members gave extensive consideration to the question of eligibility of claimants unemployed for longer than 52 weeks who, under the present provisions of the law, may become eligible for a second round of benefits without intervening employment.

A position held by some committee members was that such claimants should be disqualified from a second round of benefits unless there was intervening employment as evidence of their attachment to the labor force. Advocates of this position felt that the Unemployment Compensation Program was designed to compensate for "short-term" unemployment and that the present practice was a departure from the basic principles upon which the program was founded.

Other committee members indicated adherence to the view that workers in this category meet all usual tests of the law required of claimants entering their first benefit year and should not be penalized by an arbitrary disqualification. These members indicated that the recent and present economic and labor market conditions indicate a lengthening of the period of unemployment both during and between recession periods.

In this area the committee contemplated but did not agree on changes ranging from zero to a decrease of \$18 million per year.

BENEFIT PROVISIONS

Weekly Benefit Amount

The Bureau of Employment Security estimated that proposed changes in benefit outlays in this area of discussion would involve increases of from \$15 million to \$27.5 million based on an estimated total outlay of \$250 million.

Committee members generally agreed that the level of weekly benefits should be such that the majority of claimants would receive approximately 50 percent of their full-time gross weekly wage, but disagreed as to the manner in which this should be accomplished.

Some members of the committee proposed that 55 percent of the state-wide average weekly wage of all Pennsylvania workers (at the present time \$46) be used as the current standard for determining maximum benefits. Some members of the committee proposed an increase in maximum benefits to \$40 a week. Other members proposed an increase in the maximum benefits to \$40 provided compensating benefit reductions were effected.

Members proposed that any new level of benefits should become effective on various dates; some members proposed July 1, 1960; others favored postponing establishment of a new maximum until the Fund (exclusive of borrowed money) reached \$300 million.

In this area the committee considered but did not agree on changes ranging from zero to an increase of \$27.5 million per year.

Partial Unemployment Benefits

The Bureau of Employment Security estimated that benefit outlays involved in this area of discussion totaled \$10.5 million based on an estimated total annual outlay of \$250 million.

In this area of discussion, three major recommendations were considered. Some committee members believed that the present allowance of earnings from part-time or casual employment should be changed from the present \$6.00 per week to \$10.00 per week, with a further allowance of 20 percent of all earnings above \$10.00 per week. Other committee members believed the law should be changed to allow earnings of 30 percent of the claimant's weekly benefit amount but not less than \$6.00 per week. Some committee members believed the present \$6.00 allowance was adequate and should be left unchanged.

In this area the committee contemplated but did not agree on changes which would involve changes in benefit outlays ranging from zero to an increase of \$3 million per year.

Duration of Benefits

Three viewpoints regarding duration provisions of the Unemployment Compensation Law were expressed during discussions by the committee. One viewpoint expressed was that the duration of benefits should be based upon earnings during the base or qualifying period and that potential duration should vary from 18 weeks minimum to 30 weeks maximum.

A second viewpoint expressed was that the duration provisions of the law, which now call for 30 weeks of potential duration for all eligible claimants, be left unchanged.

A third viewpoint expressed was that the present 30 weeks' uniform duration be extended to 39 weeks.

In this area the committee contemplated but did not agree on changes ranging from an increase of \$30 million to a decrease of \$10 million per year.

Claimant Eligibility

It was generally agreed that all claimants must demonstrate real and substantial attachment to the labor force. Some members of the committee proposed that the present requirement for eligibility based on earnings be supplemented by an additional test of attachment to the labor force which would require at least one day of work in each of 18 different weeks during his base year.

Another view advanced by some committee members was that the benefit eligibility table, which now requires a full-time wage equivalence of approximately 15 or 16 weeks of work, be modified to establish a minimum wage equivalence of 18 weeks of full-time work.

Another opinion was that the present requirement of a wage equivalent of 15 to 16 weeks was an adequate test of labor force attachment and the law should be left unchanged.

No agreement was reached on these changes.

In this area the committee contemplated but did not agree on changes ranging from zero to a decrease of \$15.5 million per year.

Seasonal and Temporary Employes

The committee considered amendments to the law to exclude from eligibility workers employed in temporary jobs for short periods of time and casual and seasonal workers whose employment is not of sufficient duration to indicate substantial attachment to the labor force. Some members of the committee advocated that such workers be required to meet a weeks-of-work test if such earnings constituted one-half of their qualifying wages. Other members of the committee believed that such provisions might eliminate, on an arbitrary basis, workers who had earned sufficient wages to otherwise qualify for benefits.

In this area the committee contemplated but did not agree on changes ranging from zero to a decrease of \$7 million per year.

Miscellaneous Provisions

Two minor points on which there was general agreement of committee members were:

- (1) The ending of a claimant's benefit year should be either extended or contracted by not more than 6 days to avoid interference with a claimant's completion of a full benefit week.
- (2) A claimant should not be disqualified for engaging in a sideline business or activity if he was engaged in such sideline activity during the period in which the wages used as a basis for his benefit entitlement were earned.

In this area the committee contemplated and agreed on changes which would involve increases in benefit outlays of \$1.5 million per year.

INCOME CHANGES AND TAXING PROVISIONS

In considering the necessary income changes and taxing provisions required to finance the continuing benefit costs and to rebuild the Fund, the committee considered three major alternatives:

- (1) Broadening the base of taxable wages.
- (2) Increasing the rate of contribution on the present tax base.
- (3) Using a combination of increased tax base and increased tax rate.

Some members of the committee felt that the present base, of the first \$3,000 of earnings, should be raised to \$3,600. These members believed that since benefit provisions and benefit outlays tend to fluctuate in accordance with total wage patterns, the tax base should be made more sensitive to changes in these factors. They also felt that such a change would lessen the impact of an increased tax rate on low-wage industries located in areas of economic distress.

The opposing view was that the tax base bears no necessary or useful relationship to either the level of wages or the benefit level and that such a change would cause inequities in distribution of the tax burden. It was pointed out by holders of this view that the federal unemployment tax base has remained at \$3,000.

With regard to taxing provisions a group of committee members believed that unemployment compensation in Pennsylvania should be financed by a tax on all covered employers, which should be a combination of three separately determined rates as follows: (1) A graduated tax based on experience; (2) A uniform tax to finance common costs; (3) A flat tax to rebuild the cash balance of the Fund to \$300 million by December 31, 1962 (thereafter automatically discontinued).

These members also proposed adjustment of individual reserve balances so that by December 31, 1962, total reserves would approximate the level of cash in the Fund. Deficit balances occurring each year would be charged to "common costs" rather than to individual employer accounts. These members also believed that in cases involving voluntary quits from base year employers the separating employers should bear some part of the charges for the benefits paid. Credits to individual employer accounts would be restricted to the tax based on experience. Relief of benefit charges would be discontinued except with respect to claimants discharged for willful misconduct.

Some committee members strongly advocated a return to "experience" or "merit" rating, which involves variable tax rates, as soon as possible and in any event not later than January 1, 1960, while other members expressed equally strong opinions that no reduced cost should be allowed employers in Pennsylvania until such time as the Fund was rebuilt to an adequate level. The proponents for a return to experience rating believed that use of a variable rate would provide a needed incentive to employers to police the payment of benefits to their former employes as well as offering possible cost reduction to those employers who took steps to stabilize their work force. Those holding opposing views felt it unwise to permit any reduction in rate below the standard 2.7 percent until the present Fund level was substantially increased, and some members felt that in no event should there be a return to "experience" or "merit" rating.

* * * *

Although the above paragraphs present the major program areas considered by the committee, the viewpoints presented are, of necessity, set forth in summary form. It was not deemed feasible to mention the many subsidiary areas of discussion and agreement or disagreement nor the detailed reasons expressed or the positions taken by individual committee members or committee groups. However, the minutes of each meeting of the committee have been kept in some detail. Other documents, such as survey analyses and statistical data presented to the committee, are available if you wish to examine them. All this information is on file in the office of the Secretary to the committee.

Members of your committee are deeply conscious of the importance of the program that you have asked us to review. In expressing our appreciation of the honor of serving on this committee, we wish especially to mention our sincere appreciation of the constant and able response given to this committee's demands by the administrators and technical staff of the Bureau of Employment Security. In meeting the tremendous burden of supplying the material constantly called for by the committee, the administrators and technical staff have lived up to your promise to us that all necessary information and services would be available to the committee.

We trust our time has been spent in such a way as to be of value to you and to the Commonwealth. We sincerely believe that future reviews made on either a continuing basis or by periodic re-examinations by a committee especially appointed for that purpose can be of real value to the administrators of this program, the Chief Executive, and the members of the Legislature.

Very truly yours,

Gustave G. Amsterdam

Dr. James Creese, Chairman

Fred C. Foy

Thomas P. Harney

G. Richard Fryling

Thomas J. Monaghan

W. D. Gillen

J. Dean Polen

Russell T. Walker

Lewis M. Stevens

Earl C. Bohr

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